



October 23, 2014

Honorable Mayor Todd Meier
And Members of the Town Council
Town of Addison, Texas
5300 Belt Line Road
Dallas, Texas 75254-7606

INTRODUCTION

Pursuant to Addendum #1 to our Engagement Letter dated April 23, 2014, we are submitting this *Second Set of Recommendations* regarding the operations, policies, procedures and internal controls over the Town's accounting and finance functions. This *Second Set of Recommendations* is being provided as a guide and is not intended to provide all of the details associated with the implementation of each recommendation. *The footnotes are an integral part of this report and should be carefully reviewed.*

We are happy to discuss each individual recommendation in depth, answer any questions, address any concerns and, of course, stand ready to assist you and the Town's staff in any way we can.

EXECUTIVE SUMMARY

In our *First Set of Recommendations*, we discussed issues surrounding PURCHASING, PROCUREMENT & ACCOUNTS PAYABLE PROCESSING, BANKING, FIXED ASSETS, PAYROLL, CASH RECEIPTS PROCESSING AND STAFFING. In this *Second Set of Recommendations*, we are providing recommendations in the area of CONTRACTING, the OKTOBERFEST SPECIAL EVENT, and COMPLIANCE MONITORING. Among other things, our work detected poor oversight over the contracting function, including a failure to tie the amounts billed by vendors back to the contracts; inadequate or poorly documented controls over the Oktoberfest ticket sales and cash collection process; and reconciliations prepared for the Oktoberfest event that were based on unreliable data. **These inadequacies make the Town vulnerable to experiencing instances of fraud, waste and/or misapplication of assets. Further, these deficiencies also mean that it would be difficult for the Town to detect instances of fraud, waste and/or misapplication of assets should they be occurring.**

CONTRACTING

Recommendations

- Purchasing Manual – in October 2013, the Town completed a new Purchasing Manual. For the most part, the Purchasing Manual is a well-written document. The Manual should be revised where needed to incorporate the changes related to purchasing/contracting/invoice payment processing contained in our *First and Second Set of Recommendations*. Most importantly, the Manual should be adopted and vigorously enforced.
- Purchasing Manual Training - We recommend that as soon as practicable, each and every Town employee receive Purchasing Manual training that is appropriate for his or her position.
- Purchasing Ethics - Accompanying the issuance of the Purchasing Manual was an “Acknowledgement Form” to be signed by each employee and placed in the employee’s personnel file. The Acknowledgement includes, among other things, a representation by the employee that violations of Town purchasing policies and procedures subject the employee to disciplinary action. This is an important tool for setting management’s expectations. An executed Acknowledgement Form (supported by relevant training and communications) should be obtained from each Town employee as soon as practicable.
- Vendor Selection – The Purchasing Manual offers extensive guidance in the area of vendor selection and the criteria used to judge bids. We suggest that anyone on the vendor evaluation committee be required to read and re-familiarize himself or herself with the guidance regarding vendor selection contained in the Purchasing Manual, prior to each contract evaluation. In addition, the evaluation process itself should be carefully documented and properly maintained.
- Purchasing/Contracting Software – In our analysis of contract files, it appeared that the files were poorly organized. A variety of software tools are currently available that will automate the organization and management of vendor relationships. It is our understanding that Bid Sync has a module that assists with the organization and monitoring of vendor contracts and that Town staff is currently studying possible software tools for this function.
- Vendor Invoicing – As discussed in detail below, the Town does not require vendors to provide invoices that match the cost categories contained in the vendor’s contract. The Town should require vendors to invoice the Town in a



manner that can be tied directly to the contract.

- Vendor Oversight and Management – Invoices should be compared to vendor contracts prior to payment. Payment should not be authorized unless the invoice price, quantity and quality are in agreement with the contract. When authorized deviations occur, the reason for the deviation should be noted on the face of the invoice from the vendor (or in the vendor's file) so that a proper audit trail is maintained.
- Compliance Monitoring – In order to be an effective policy, the directives found in the Purchasing Manual should be monitored and enforced. The Town should contract with a CPA firm to provide an outsourced Internal Audit Function to perform periodic compliance monitoring. This firm should report to the Finance Committee of the Town Council and include the Town Manager. Under no circumstances should the internal audit firm report directly to Town Management.
- Employee Accountability – Employees who do not follow the Purchasing Manual Policies should be properly coached as to the importance of the policies set forth in the Purchasing Manual. Repeat offenders should be prevented from participating in the Town's purchasing and vendor payment function and dealt with according with the Town's personnel performance policies.

Basis for Recommendations

The Town has a well-written and comprehensive Purchasing Manual. This document was developed with the help of an outside consultant and provided policy and procedure directives covering PROCUREMENT, CONTRACT ADMINISTRATION, ETHICS, VENDOR INSURANCE AND P-CARDS. Among other things, the form requires each employee to acknowledge the Town's Code of Ethics. Unfortunately, the Purchasing Manual and accompanying acknowledgement were not communicated to employees until September 2014.

In early October 2014, the first meeting regarding the Purchasing Manual was held. It is our understanding that approximately 60 employees attended the meeting. Although we did not attend the meeting, we understand that employees from a variety of staff levels and from a variety of departments attended the meeting. Providing training to employees based on their job responsibilities is essential. Providing the same training to a laborer in the Parks Department as an employee who administers purchasing for the Police Department is probably not an effective approach. It is critical that 100% of the Town's employees understand the Town's policies *as they relate to their*



assignments and to execute the Purchasing Manual Acknowledgement form based on a clear understanding of their obligations.

A full year delay in rolling out the Purchasing Manual is an exceedingly long lead-time and possibly sends a counterproductive “Tone at the Top” message to Town employees. In addition, the lack of obtaining signed Acknowledgement Forms from each and every employee also sends a less than constructive message to the Town’s employees. Upon completion of the training, each employee should be required to execute the Acknowledgement form and as stated on the form, the executed document should be placed in the employee’s personnel file.

To determine the current state of the Town’s Contracting environment we reviewed several contracting files and selected two vendor contracts and related invoices for analysis.¹ We made the following observations during the course of our work:

- Some bids were received through the Bid Sync system and some were apparently received manually via mail or hand delivery. It is our understanding that in some cases, vendors who are sought out are not part of the Bid Sync system and are submitting bids manually. The Town should take steps to insure that vendors submitting bids are judged on equal terms, regardless of the mechanism for submission.
- We noted that the criteria used for vendor selection might not always be sufficiently linked to the products or services being procured. For example, is it necessary to include the geographical location of the vendor in the selection process? We noted that for a printing contract, the geographic location (i.e. miles from Addison) was a factor, however none of the vendors submitting proposals were within the Town of Addison. Using local Addison businesses may be a valid factor, however, when all the businesses submitting a bid are outside of the Town’s Limits, it becomes somewhat of a questionable factor when one bidder is a few more miles from Addison than another.²
- Regarding the printing contract, we noted that the list of items used in the evaluation of the bids received did not necessarily correlate with the items being purchased from the vendor. And when the items did correlate, the prices paid did not seem to match the amounts in the bid.

The following is the bid entered into the Bid Sync system for the printing contract.

¹ Our selection was *not* based on a statistically valid random sample and the procedures employed should not be considered an audit.

² We understand that in most situations where printing services are required, the “print job” is electronically sent to the printer and the printer delivers the results to the client. However, in some cases, the “print job” is electronically sent to the printer and the printer delivers the results to the client.




BIDSYNC
[Home](#) [Search](#) [Bids](#) [Orders](#) [Tools](#) [CRM](#) [Agency List](#) [Support](#) [Logout](#)

Offer Received

[View Offer Report](#)

Offer(s) on Bid 13-24

Listed below is your offer information. Click on the "Return to Offer" button below to return to the bid information screen.

YOUR OFFER(S)

Line Item				
13-24--01-01	Business Cards [Edit]			
	Product Code	Unit Price	Qty/Unit	Total Amount
		\$0.116	250 / each	\$29.00
	Notes for Buyer		Attachments	
13-24--01-02	Business Cards [Edit]			
	Product Code	Unit Price	Qty/Unit	Total Amount
		\$0.069	500 / each	\$34.50
	Notes for Buyer		Attachments	
13-24--01-03	Letterhead [Edit]			
	Product Code	Unit Price	Qty/Unit	Total Amount
		\$0.0795	1,000 / each	\$79.50
	Notes for Buyer		Attachments	
13-24--01-04	Envelopes (no window) [Edit]			
	Product Code	Unit Price	Qty/Unit	Total Amount
		\$0.055	1,000 / each	\$55.00
	Notes for Buyer		Attachments	
13-24--01-05	Envelopes (window) [Edit]			
	Product Code	Unit Price	Qty/Unit	Total Amount
		\$0.059	1,000 / each	\$59.00
	Notes for Buyer		Attachments	
13-24--01-06	Personalized Notepads [Edit]			
	Product Code	Unit Price	Qty/Unit	Total Amount
		\$4.0833	12 / each	\$48.9996
	Notes for Buyer		Attachments	
13-24--01-07	Black and white copiese on white 20 lb paper [Edit]			
	Product Code	Unit Price	Qty/Unit	Total Amount
		\$0.035	1 / each	\$0.035
	Notes for Buyer		Attachments	
13-24--01-08	Color copies on white 20 lb paper [Edit]			
	Product Code	Unit Price	Qty/Unit	Total Amount
		\$0.29	1 / each	\$0.29
	Notes for Buyer		Attachments	
13-24--01-09	Comb binding [Edit]			
	Product Code	Unit Price	Qty/Unit	Total Amount
		\$0.69	1 / each	\$0.69
	Notes for Buyer		Attachments	
13-24--01-10	Coil binding [Edit]			
	Product Code	Unit Price	Qty/Unit	Total Amount
		\$0.79	1 / each	\$0.79
	Notes for Buyer		Attachments	
13-24--01-11	Inline tape binding [Edit]			
	Product Code	Unit Price	Qty/Unit	Total Amount
		\$0.89	1 / each	\$0.89
	Notes for Buyer		Attachments	

1.

2.

2.



The following is an invoice received pursuant to the print contract.

Invoice	
No: 81681	Date: 05/07/14
SHIP TO:	
< Same as Bill To >	
Deliver 5/5/2014	
Fax:	
Accounts Payable Town Of Addison P.O Box 9010 Addison TX 75001-9010	

Acct.No	Ordered by	Phone	P.O. No	Prepared by	Sales Rep	Ship Via
1500			Visit	Steven	SSM	Deliver
Quantity	Description					Price
1,000	Visit Addison Letterhead 1 Original (1 side)					344.28
500	Visit Addison Formal Envelopes 1 Original (2 sides)					129.00
500	Visit Addison Foldover Note Card Envelope 1 Original (1 side)					272.44
500	Visit Addison Foldover Note Card 1 Original (1 side)					257.71
500	Visit Addison Catalog Envelopes 1 Original (1 side)					321.26
250	Business Cards-Bob Phillips 1 Original (1 side)					29.00
250	Business Cards-Rodrigo Valles 1 Original (1 side)				612	29.00
250	Business Cards-Keila Fairbanks 1 Original (1 side)					29.00
600	Notepads-Bob Phillips 1 Original (1 side)					49.00
600	Notepads-Rodrigo Valles 1 Original (1 side)				612	49.00
600	Notepads-Keila Fairbanks 1 Original (1 side)					49.00
1	Set-up New Stationary 1 Original					42.75

- 1.
- 2.
- 3.

Several items are noteworthy:

1. The invoice reflects 1,000 Visit Addison Letterhead billed at \$344.28 while the bid appears to indicate that 1,000 letterheads should cost \$79.50.
2. The invoice reflects 500 Visit Addison Formal envelopes billed at \$129.00 while the bid appears to indicate that 1,000 envelopes should cost either \$55.00 or \$59.00, depending on whether there is a window.



3. The invoice contains a Set-up charge of \$42.75 for new stationary while no such item was located in the bid provided by the vendor in the Bid Sync System.

While there may be valid be explanations for the departures from the bid, no information was found in either the contract file or the paid invoice file that would explain the departure. In addition, as we analyzed other invoices from the same vendor, it became apparent that many of the items purchased from the vendor were not part of the bid. We suggest that all bid requests be based on the items commonly purchased by the Town and be weighted and judged based on the largest dollar items. In addition, for this contract, it appeared that other bidders submitted bids that had substantially higher costs than the winning bidder, calling into question whether the bidder chosen could actually deliver based on the amounts bid.

The other contract selected for analysis was for marketing services. This vendor apparently had a master contract and, as required in the master contract, separate agreements for additional services. The master contract was for special event marketing and economic development marketing. Several other agreements were located that covered a variety of additional services including but not limited to the restaurant guide, brand roll-out, e-blast newsletter, rebranding, visitor guide, and other marketing related tasks.

This vendor has been paid in excess of \$700,000 since October 1, 2011. **We found it virtually impossible to tie the invoices received from this vendor back to the contract or agreement from which they originated.** This is because the invoices from the vendor were not presented in a way that permitted the invoice to be tied to the agreements.

The following was extracted from a 20-page Re-branding project agreement dated October 18, 2012. The contract was for services to be billed at \$135 per hour with a not-to-exceed amount of \$56,825.

PROFESSIONAL FEES AND EXPENSES

The professional fees for this Project are detailed below.

DISCOVERY	\$25,000
INSIGHT	\$9,500
CREATIVE.....	\$ 20,300
LAUNCH PLAN	\$ 2,025
TOTAL	\$56,825

OUT-OF-POCKET EXPENSES

In addition to the professional fees outlined above, _____ will invoice the client monthly for actual related out-of-pocket expenses incurred including, but not limited to postage, courier fees, proof preparation, report preparation and binding, demographic services, analyst reports and travel, including airfare, lodging, meals, rental cars, taxis, mileage reimbursement at the then prevailing Internal Revenue Service mileage rate and parking.

ADDITIONAL WORK

_____ (whether on its own or through _____) will, as may be requested by Client from time to time, also support the marketing efforts of other Town of Addison departments and special projects. Additional Work includes work not included within the scope of The Work I. Special Event, II. Economic Development and III Marketing departments. It also includes all other Town of Addison projects.

Specific estimates for all Additional Work will be provided on a project by project basis after complete project scope is defined and prior to initiation of work. All estimates will be provided based on the _____ hourly rate of \$135.

This work will be estimated by _____ and agreed to in writing and signed by both parties prior to project inception.




We were unable to find any invoice that was easily traceable back to the relevant contract or agreement. Often, the invoices located appeared like the following invoice:

Invoice

Invoice #: 22624
Invoice Date: 8/21/2014
Due Date: 8/21/2014
Job #: 348-ADD-Brand Launch Produc...
P.O. Number:

Bill To:
 TOWN OF ADDISON
 PO Box 9010
 Addison, TX 75001-9010

Description	Qty	Rate	Amount
Re-Brand Brand Standards	1	1,800.00	1,800.00
Copies, Fax, Art Supplies, Archiving	1	25.00	25.00
 11-614-56040-00000			
Thank you for your business!		Total	\$1,825.00
		Payments/Credits	\$0.00
		Balance Due	\$1,825.00

Remit to: Dallas, Texas 75201
 P.O. Box Fax:
 Phone: 214-

We are not sure if the above invoice was for services provided under the referenced agreement. In spite of the contract requirement, we found only a few invoices that were billed on an hourly rate basis. Based on our discussions with the Director of Marketing, we learned that no procedures are employed by her department that ties invoices back to contracts. **The lack of consistency between contracts and invoicing puts the Town at significant risk of being overcharged by vendors.**



OKTOBERFEST SPECIAL EVENT

Recommendations

- Admission Tickets – All admission tickets (pre-sales, on-line, on-site and complementary) should be bar coded with a unique tracking number. Each and every admission ticket should be electronically scanned upon a guest's entrance into the event. Valid tickets that are not, for whatever reason, electronically scanned should be retained by the entrance gate staff and manually counted and reported on a form submitted to the Finance Department.
- Admission Ticket Tracking – Admission ticket stock should be logged as to ticket number range and issued to ticket sellers by the Finance Department staff. This *Ticket Tracking* log should contain the Finance Department staffer's name and the name of ticket seller, the date and time of issuance and number range of the tickets issued (the ticket range logging could be accomplished by scanning a barcode on each box of tickets). Each ticket seller should then sign the log (in ink), accepting responsibility for the tickets received and confirm the range of ticket numbers received. These *Ticket Tracking* logs should be retained by the Finance Department staff in a secure location, inaccessible to ticket sellers. Upon the completion of each ticket seller's shift, unsold tickets and their corresponding number ranges should be returned to the Finance Department staff, recorded on the *Ticket Tracking* logs and signed as returned by both the ticket sellers and the Finance Department staff member receiving the tickets. Additional tickets issued to the ticket sellers during their shift should also be logged and signed for in the same manner as the original issuance of tickets.
- Admission Ticket Reconciliation – Periodically, throughout the event day, the report of tickets scanned should be matched to the *Ticket Tracking* log. To insure all processes are properly working, significant differences (such as gaps in ranges of tickets scanned versus the ranges of tickets issued to ticket sellers) should be investigated immediately and steps taken to correct errors in scanning or ticket sales practices. Each evening, tickets sold as reported on the Ticket Tracking log and scanning logs should be reconciled to the cash turned-in by the ticket seller. Significant discrepancies should be immediately investigated.
- Admission Ticket Cash Management – As cash is periodically removed from the ticket seller's tills during the event day, the ticket seller should be temporarily taken off-line. A Finance Department staff member should count all cash being removed under the observation of the ticket seller. We recommend the use of a two-part form where the Finance Department staff



member and the ticket seller notate the amount of cash and cash equivalents being removed. Once both parties are in agreement as to the amount being removed, they should both sign the form with the Finance Department staff member storing the signed original with the cash being removed and the ticket seller retaining a copy. The ticket seller's copy should be retained by the ticket seller and delivered directly to the Town Manager's office by the next business day. These control copies will then be available for review should any questions arise during the event reconciliation process. The Town Manager's office should retain the signed forms at least until all reconciliations are completed.

- Complementary Tickets – we identified at least \$21,000 of TastyBuck Tickets that were apparently given away. As of the date of this report, we have not received information that describes who received these tickets or the process by which they were distributed. In addition, an unknown number of free admission tickets were also identified. At this time, we are unable to quantify the total dollar impact of the complementary admission tickets. While a certain number of complementary admission tickets are to be expected, the \$21,000 in complementary TastyBucks are a direct out-of-pocket cost to the Town. Strict controls should be placed on complementary tickets.
- TastyBuck Tickets – the Town should immediately begin investigating methods to improve the Tasty Buck sales and vendor payment processes. Potential solutions include allowing pre-sales via the internet with or without slight price discounts for advance purchase, the use of ATM type machines, electronically scannable tickets, or some other system.³
- TastyBuck Ticket Reconciliation – the TastyBuck ticket reconciliation process should be re-engineered, depending upon the revisions to the ticket sales process. The current reconciliation process is flawed in a number of ways and should be re-engineered before the next event.⁴
- TastyBuck Ticket Redemption – TastyBuck tickets are presented for payment to the Town's Special Event Manager and Court Clerk by the vendors at the conclusion of the event. Redemption should be moved to the Finance Department to provide separation of duties between vendor contracting and vendor payment. In addition, The Court Clerk should also not be involved in the payment of vendors as she supervises the TastyBuck sales and cash

³ Possible new solutions for TastyBuck ticket sales and management are outside the scope of this engagement.

⁴ Re-engineering the reconciliation process is dependent upon the TastyBuck ticket sales and management system eventually chosen.



collection function during the event.

- Special Event Vendor Payment – Upon presentation of tickets by vendors, TastyBuck tickets are weighed. Ticket counts are determined by the weight of the tickets.⁵ After the amounts owed are calculated, checks are requested from the Finance Department. In the event that the Town decides to continue weighing tickets, we suggest that the ticket weighing and payment calculation process be more thoroughly documented. Currently, the Town is relying on the weight of a batch of 300 tickets to calibrate the ticket counts. This process is poorly documented. Going forward, we suggest that each sample weighed be logged as to weight, ticket count and ticket condition. The index weights used should then be logged as each vendor's ticket batches are weighed. The condition of each ticket batch weighed should also be logged. Clear recording of vendor name, batch number, batch condition, index weight used, extrapolated ticket count, Addison commission percentage and final payment amount will provide transparency and an audit trail for the vendor payment process.
- Final Cash & Cash Equivalent Reconciliations – The quality of the final event reconciliation is directly proportional to the quality of the data that underlies the reconciliation. The quality of data used as a starting point for the reconciliations should be improved. Notwithstanding the enormous amount of time and effort that went into the preparation of the Oktoberfest reconciliations by the Finance Department staff, the reconciliations are based on flawed, incomplete and poorly collected data so they are therefore, unreliable⁶.
- Event Profit and Loss Statement – The Town should prepare a Profit and Loss statement for each special event. This analysis should contain 100% of the revenues and costs associated with the event. Although we understand that the profitability of each event is factored into the Town's budget, we believe an accounting of revenues and expenses that capture *all* costs and expenses should be prepared at the conclusion of each special event. The information contained in such a report will be a valuable management tool.

⁵ Based on interviews with Barbara Kovacevich and Chris Terry, we understand that tickets are evaluated for authenticity and tampering. The Town staff sorts all tickets presented by vendors and removes tickets from other events such as the State Fair of Texas or Grapefest. Ticket counts of valid and dry tickets are calculated based on the weight of a sample of 300 tickets. Wet or damp tickets are sampled, weighed separately and assigned a new count based on the weight of the sample.

⁶ It is important to note that the Final Cash and Cash Equivalent Reconciliation we reviewed for the 2014 event were a significant improvement over the Final Cash and Cash Equivalent Reconciliation provided to us for the 2013 event. The 2013 event's reconciliation was missing numerous components.



Basis for Recommendations

The processes and procedures employed at Oktoberfest were observed on Friday, September 19, 2014. Areas specifically observed included the main gate entrance, TastyBuck sales tents and the Finance Department cash collection area. Information about processes was also obtained from Chris Terry, Barbara Kovacevich and Eric Cannon.

Preliminary and final ticket reconciliations were briefly analyzed.⁷ However, we believe that certain data, upon which the reconciliations are based, is unreliable. The following is a brief summary of some of the issues noted during our analysis of the Oktoberfest Event Reconciliations:⁸

- Admission Tickets QR Code – Tracking was provided through the use of a QR code. The admission tickets did not contain a unique tracking number. Without a unique ticket number, there is no way to trace a ticket scanned back to the ticket seller and a single ticket can be scanned multiple times without detection.
- Unreliable Electronic Ticket Scanners – Admission ticket QR Codes were scanned using iPhone scanners that were apparently negatively impacted by bright sunlight. This made it difficult and often impossible to scan the Admission ticket QR Codes. Despite the best efforts of the scanning staff, at certain times the staff was forced to allow guests to enter without scanning the QR Code. This results in a potential undercount of attendance.
- Complementary Admission Tickets – It appears that the reconciliation uses ticket counts that include complementary admission tickets for which no funds were received. Accordingly, dollars collected were reconciled to ticket counts for which no funds were collected. This would render the over/short computation in the reconciliation to be inaccurate.
- TastyBuck Reconciliations⁹ – Nightly reconciliations of TastyBucks ticket sales by tent to cash collected at the tent were apparently prepared by the tent supervisor. During the event day, the tent supervisor was also removing cash from the ticket seller's tills and replacing the cash with a "voucher" reportedly equal to the amount removed from the till. Unfortunately, these "vouchers" were not logged or accounted for in any way and were controlled

⁷ No audit of the Oktoberfest reconciliations was performed.

⁸ This is not intended to be a complete list.

⁹ We have not been provided with a reconciliation that compares the TastyBuck ticket sales to the amounts paid to the vendors. This is a significant outstanding item.



exclusively by the person performing the nightly reconciliations. In addition, the TastyBuck tent reconciliations were completed by the tent supervisor, some in pencil. This lack of segregation of duties, coupled with nightly tent reconciliations that contained erasures, scratch outs and use of uncontrolled “vouchers” makes it theoretically possible for the tickets sold to be artificially matched to the cash deposited rather than the cash collected.

COMPLIANCE MONITORING

Recommendations

- Adopt the COSO Framework – as discussed in our previous presentations to the Town Council, management should actively and enthusiastically adopt the COSO Framework, including a robust internal audit process. We recommend that the Town contract with a CPA firm to perform routine internal audit functions on the Town’s processes and to embrace and engrain the COSO Framework in the Town’s day-to-day operations and management. For the Town of Addison, we believe this to be a process as well as a cultural issue that can only be accomplished through strong Tone at the Top messaging and actions.
- Fraud or Whistleblower Hotline – the Town should establish a Fraud or Whistleblower Hotline to provide a mechanism for employees, contractors, residents or other interested parties to report instances of potential waste, fraud or abuse.

Basis for Recommendations

During the course of our work, it has become clear that historically, the Town has not encouraged an environment that values internal controls. As previously stated, a well functioning system of internal controls starts with the Tone at the Top. We have found nothing to indicate that the Town has historically had a Tone at the Top focused on a well functioning system of internal controls. In fact, it appears that the opposite has been true in that the design of financial controls was often left up to individual employees with little or no oversight and that proper segregation of duties was systemically discouraged.

As previously discussed COSO, the Committee of Sponsoring Organizations of the Treadway Commission established a framework for an effective system of Internal Controls. The formal adoption of the COSO framework, including its integration by Town management in day-to-day operations and routine communication to the Town’s employees will help the Town better manage its resources, obtain more accurate information for decision making, reduce the potential for losses and reduce



the Town's exposure to internal control failures. The following chart represents the COSO Internal Control Framework:

Control Environment	<ol style="list-style-type: none"> 1. Demonstrates commitment to integrity and ethical values 2. Exercises oversight responsibility 3. Establishes structure, authority and responsibility 4. Demonstrates commitment to competence 5. Enforces accountability
Risk Assessment	<ol style="list-style-type: none"> 6. Specifies suitable objectives 7. Identifies and analyzes risk 8. Assesses fraud risk 9. Identifies and analyzes significant change
Control Activities	<ol style="list-style-type: none"> 10. Selects and develops control activities 11. Selects and develops general controls over technology 12. Deploys through policies and procedures
Information & Communication	<ol style="list-style-type: none"> 13. Uses relevant information 14. Communicates internally 15. Communicates externally
Monitoring Activities	<ol style="list-style-type: none"> 16. Conducts ongoing and/or separate evaluations 17. Evaluates and communicates deficiencies

SUMMARY COMMENTS

Our recommendations are based primarily on interviews of members of the Town's staff, limited analysis of documents, personal observations and best practices. Detailed testing of transactions was outside the scope of this engagement. Our engagement did not involve an audit, review, compilation, Internal Control Review or attest service as those terms are defined by the American Institute of Certified Public Accountants. Further, our procedures were not designed to detect fraud or non-compliance with laws, contracts or regulations nor were they designed to detect the misapplication of assets.

/s/ Kanter Financial Forensics, LLC

October 23, 2014

